

Message Text

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ACTION EB-07

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TAGS: EAIR, FR

SUBJECT: CIVAIR: AIR FRANCE OPERATIONS

REF: PARIS 24728

1. SUMMARY: AIR FRANCE DIRECTOR GENERAL TOLD PRESS 1974 DEFICIT NOW ESTIMATED AT 500 MILLION FRF. DUE MAINLY TO HIGHER FUEL COSTS. MANAGEMENT CONFIRMS CARRIER HAD "GOOD YEAR" ON NORTH ATLANTIC, HOWEVER. MAJOR PREOCCUPATION IS RENEWAL OF FLEET, BUT POSSIBLE PURCHASE OF 737'S IS TOUCHY ISSUE. CONCORDE SERVICE TO US FORESEEN IN SPRING OF 1976 "CERTAINLY" TO WASHINGTON AND "PERHAPS" TO NEW YORK.

2. GILBERT PEROL, NEWLY APPOINTED DIRECTOR GENERAL OF AIR FRANCE, TOLD PRESS ON DEC. 2 THAT AIR FRANCE DEFICIT FOR 1974 WILL BE ABOUT 500 MILLION FRF. (AS COMPARED TO EARLIER ESTIMATE OF 400 MILLION FRF.). ACCORDING TO LE MONDE, PEROL SAID THAT BECAUSE OF HIGHER FUEL COSTS AIR FRANCE FUEL BILL HAD INCREASED FROM 300 MILLION FRF. IN UNCLASSIFIED

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1973 TO 1.2 BILLION FRF. IN 1974. UNFORTUNATELY

FOR AIR FRANCE, ITS FUEL CONTRACTS WERE UP FOR RENEWAL AT END 1973, WITH RESULT THAT IT HAD FELT THE IMPACT OF HIGHER FUEL COSTS FROM THE VERY BEGINNING OF 1974. DRASTIC ECONOMIES TO CUT DOWN ON COMPANY'S OVERHEAD WHILE PRESERVING EMPLOYMENT WILL BE LOOKED TO IN HOPES OF REDRESSING AIR FRANCE'S FINANCIAL SITUATION IN 1975.

3. PEROL SAID THAT AIR FRANCE HAD ALSO SUFFERED FROM DECLINE IN PASSENGER TRAFFIC, ESPECIALLY ON INTRA-EUROPEAN ROUTES, BUT HAD A "GOOD YEAR" ON NORTH ATLANTIC. (COMMENT: THIS CONFIRMS OUR EARLIER REPORTS THAT AIR FRANCE, UNLIKE US CARRIERS, WAS DOING WELL ON NORTH ATLANTIC THIS YEAR. WHILE REDUCTION IN CAPACITY WHICH AIR FRANCE TELLS US IT HAS MADE ON NORTH ATLANTIC COULD BE A FACTOR, PART CHARTERS AND AIR FRANCE OPERATION FROM ORLY RATHER THAN CDG DURING PEAK SEASON MAY ALSO HAVE CONTRIBUTED AS SUGGESTED PREVIOUSLY.)

4. PEROL ALSO INDICATED THAT ONE OF MAJOR PRE-OCCUPATIONS OF AIR FRANCE MANAGEMENT WAS RENEWAL OF FLEET THROUGH REPLACEMENT OF OVER THIRTY CARAVELLES AND EIGHTEEN 707'S BY MORE EFFICIENT, NEWER AIRCRAFT. INVESTMENT WOULD BE CONSIDERABLE AND AIR FRANCE WOULD NOT BE ABLE TO FINANCE IT ALONE, SAID PEROL. (COMMENT: FORM OF ASSISTANCE, OBVIOUSLY FROM GOF, WAS NOT SPECIFIED. INVESTMENT WOULD BE FOR PURCHASE AND NOT LEASING OF AIRCRAFT; NEWSMAN WHO WAS PRESENT TELLS US PEROL RULED OUT FURTHER LEASING ON GROUNDS (A) IT WOULD INVOLVE GOING US ROUTE ONCE AGAIN AND (B) AIR FRANCE MANAGEMENT ALSO FELT IT HAD REACHED CEILING OF LEASING CONTRACTS IT COULD COMFORTABLY SUPPORT ANYWAY. BOEING 737 IS NATURAL REPLACEMENT FOR CARAVELLE AND BOEING REMAINS IN TOUCH WITH AIR FRANCE THIS SUBJECT. BUT EVEN THOUGH FRENCH INDUSTRY TODAY, FOLLOWING THE HALTING OF MERCURE PRODUCTION LINE, DOES NOT PRODUCE A MEDIUM-RANGE, MEDIUM CAPACITY AIRCRAFT CAPABLE OF REPLACING CARAVELLE, POSSIBLE PURCHASE OF 737'S IN PARTICULAR BY AIR FRANCE IS SENSITIVE ISSUE

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DOMESTICALLY. DURING RECENT LABOR DISTURBANCES AT AEROSPATIALE, IN TOULOUSE, FORCE OUVRIERE SPOKESMAN MADE STATEMENT CRITICAL OF ALLEGED AIR FRANCE INTEREST IN 737'S. AND MORE RECENTLY IN SENATE STATE SECRETARY OF TRANSPORT CAVAILLE WAS ASKED BY COMMUNIST SENATOR WHETHER AIR FRANCE WOULD BE PERMITTED PURCHASE 737'S. CAVAILLE RESPONDED THAT AIR FRANCE DECISION HAD NOT YET BEEN TAKEN BUT GOF WAS FOLLOWING MATTER VERY

CLOSELY "BECAUSE OF EFFECT IT WOULD HAVE ON OUR
NATIONAL INDUSTRY.")
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